

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON VULAMEHLO MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Vulamehlo Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Vulamehlo Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

Irregular expenditure

7. As disclosed in note 32.1 to the financial statements, irregular expenditure amounting to R10 720 million was incurred during the current financial year as a result of contraventions of the Local Government: Municipal Supply Chain Management Regulations (MSCMR).

Restatement of corresponding figures

8. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the Vulamehlo Municipality at, and for the year ended, 30 June 2011.

Additional matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

10. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.

13. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

14. The material findings are as follows:

Usefulness of information

Presentation

15. Improvement measures in the annual performance report for 100% of the planned targets not achieved were not disclosed, as required by section 46 of the Municipal Systems Act (Act No 32 Of 2000)(MSA). This was due to inadequate internal policies and procedures regarding the processes pertaining to the reporting of performance information as management did not use the correct template for the organisational scorecard that contains columns for reasons for deviations and corrective measures as it did for the departmental scorecard.

Consistency

16. The Municipal Systems Act, section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of the objectives, indicators and targets between planning and reporting documents. A total of 47% of planned targets as per the approved integrated plan is not consistent with the reported targets on the annual performance report. This is due to lack of review of the annual performance report and management including indicators that are not in the control of the municipality.

Measurability

17. The National Treasury *Framework for managing programme performance information* (FMPPI) requires that indicators/measures should have a clear unambiguous definition so that data is collected consistently and is easy to understand and use. A total of 35% of the indicators relevant to basic service delivery and infrastructure, local economic development and good governance, community participation and ward committee systems were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to management including indicators that are not within the control of the municipality.

18. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 35% of the indicators relevant to basic service delivery and infrastructure, local economic development and good governance, community participation and ward committee systems were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to management including indicators that are not within the control of the municipality.

Reliability of information

Reported performance not valid

19. The FMPPI requires that processes and systems which produce the indicator should be verifiable. A total of 87% of the actual reported performance relevant to the selected objectives of basic service delivery and infrastructure and local economic development and good governance, community participation and ward committee systems differed materially when compared to the source information and/or evidence provided. This was due to a lack of review of actual achievements by senior management responsible for the selected development priorities.

Reported performance not accurate

20. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 87% of the actual reported indicators relevant to basic service delivery and infrastructure development, local economic development and good governance, community participation and ward committee systems were not accurate when compared to source information. This was due to a lack of review of actual achievements by senior management responsible for the selected development priorities.

Reported performance not complete

21. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Source information for 87% of the actual reported performance for the selected objectives of basic service delivery and infrastructure development, local economic development and good governance, community participation and ward committee systems, was not completely recorded. This was due to a lack of review of actual achievements by senior management responsible for the selected development priorities.

Compliance with laws and regulations

22. I performed procedures to obtain evidence that the municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Strategic planning and performance management

23. The municipality did not conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the Municipal Systems Act (Act No. 32 of 2000) and municipal planning and performance management regulation 6.

Annual financial statements

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of creditors, vat receivable, revaluation reserve, irregular expenditure, property plant and equipment, leases and disclosure of prior period errors, grants identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

25. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

26. Awards were made to providers who are persons in service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions, in contravention of Supply Chain Management (SCM) regulation 44.
27. Sufficient appropriate audit evidence could not be obtained to support that the awards were evaluated by bid adjudication committees as per requirements of SCM regulation 29(2).

INTERNAL CONTROL

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

29. The accounting officer did not exercise effective oversight of policies and procedures regarding supply chain and performance management to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

26. Management did not implement controls over the preparation, review and reconciliation of the financial statements as well as the reported performance against predetermined objectives. Furthermore, no system for monitoring compliance had been established to prevent non-compliance with laws and regulations.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence